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Ekho reduction and further relief for those switching from low-tax scheme

Corporate tax can be paid in foreign currency

One of the most drastic changes to Hungarian tax law in recent times, the tightening of the low-tax system (KATA) came out of the blue in the Hungarian economy in mid-July. As a result of the change in the law, many sole traders in the low-tax scheme will lose the chance to opt for the fixed-rate tax for low tax bracket entities from 1 September, significantly increasing both their tax and administrative burdens. To alleviate this and to facilitate the transition of KATA taxpayers to another tax regime, the government has decided on new provisions.

Options for payers in the low-tax scheme

According to the Ministry of Finance, those who do not qualify or cannot opt for the new low-tax scheme have a number of favourable tax options at their disposal. **Flat-rate taxation for sole proprietors, small business tax for companies and simplified contribution to public revenues** (Hungarian abbreviation: ekho) **for artists may be the best alternatives**. The latter may be made even more attractive by the ekho reduction, the details of which were published in Government Decree 297/2022 on the application of certain provisions allowing for simplified contributions to public revenues, in Hungarian Gazette No 134 of 9 August.

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The change in the law on the low tax scheme in Hungary and the government regulations brought to alleviate this, i.e. the ekho reduction affect not only small businesses and entrepreneurs, but also, indirectly, large multinational companies, i.e. our clients. Their suppliers are very likely to include taxpayers in the low tax scheme – language teachers, translators, other service providers – who have chosen this favourable tax treatment so far but now need to rethink their operations and fees. If you are interested in how this change may affect your company, feel free to contact the [tax consulting team at WTS Klient Hungary](mailto:tamas.gyanyi@wtsklient.hu).

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Ekho reduction

Under the decree, the ekho reduction means **that the so-called paying agent ekho will be abolished from 1 September 2022**. In other words, paying agents do not have to pay the simplified contribution to public revenues on the income received as remuneration by individuals – for their occupation – who fulfil their tax liability under the Ekho Act. According to the ministry, this represents a 13 percentage point ekho reduction and ultimately a 15% ekho rate.

Those switching from the low-tax scheme and opting for the ekho are helped not only by the ekho reduction but also by the lower administration, as the **ekho income is included in the draft tax return prepared by the tax office** in the same way as income from employment.

Other relief

In addition to the ekho reduction, the decree also helps people transition from the low-tax scheme who do not or cannot opt for the ekho. Although **general partnerships, limited partnerships, sole proprietorships and law firms** using the low-tax scheme on 31 August will fall under the scope of the Act on Accounting, the new provision **does not require them to have their opening balance sheets audited**.

Another relief is that if a member/unlimited partner of an existing limited or general partnership registered as a small taxpayer wishes to become a flat-rate sole proprietor, **they do not have to wait for the company to be wound up by a simplified liquidation**. Under the decree, it is sufficient for the simplified voluntary liquidation to be notified to the tax authority by 30 September 2022, and from the notification date they can be entered into the register of sole proprietors.

Corporate tax paid in foreign currency

Government Decree 298/2022 on the payment of corporate tax in foreign currency was also published in issue 134 of the Hungarian Gazette, which may help companies whose income is received partly or entirely in foreign currency. Under the decree, taxpayers **may declare to the tax authority**, using the form provided for this purpose – by the first day of the month preceding the first day of the tax year – **that they will pay their corporate**

tax in US dollars or in euros for the whole fiscal year. The amount of the transferred euros or US dollars is credited to the taxpayer's tax account in HUF at the exchange rate published by the National Bank of Hungary on the day the bank account used for the transfer is debited. The taxpayer can provide this notification for the first time for fiscal years beginning after 30 September 2022. The taxpayer must pay the conversion costs for transfers made using accounts kept in currencies that differ from the notification currency.

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